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STATE FOR SCA/INSB AND EEB/ODF/OMA
TREASURY FOR SUSAN CHUN

E.O. 12958: DECL: 05/07/2010
TAGS: [ECON](#) [PGOV](#) [PREL](#) [CE](#)
SUBJECT: SRI LANKA: CHARGE UNDERSCORES CONCERNS ABOUT IMF
REQUEST

REF: A. OWEN-MOORE EMAIL 5/06/09
[1](#)B. MOORE-BOUCHER EMAIL 5/5/09
[1](#)C. COLOMBO 488

Classified By: Charge d'Affaires James R Moore Reasons 1.4(b)(d)

[1](#)1. (C) Charge and EconChief met with Foreign Minister Bogollagama on May 7 to underscore U.S. concerns about Sri Lanka's request for an IMF Stand-by Arrangement (SBA). Charge informed Bogollagama that the U.S. is concerned about Sri Lanka's ability and commitment to carry out an effective program in the current conflict circumstances. He noted that Sri Lanka's conduct in the final stages of the war, and the way in which humanitarian issues are handled, will greatly influence both the GSL's ability to reconcile and reconstruct Sri Lanka following the end of hostilities, and the willingness of the international community to support Sri Lanka's reconstruction efforts.

[1](#)2. (C) Bogollagama asked Charge specifically to clarify if there were any known concerns regarding Sri Lanka's entitlement to an IMF loan, or, rather, if humanitarian concerns were influencing consideration of Sri Lanka's request for an IMF SBA in capitals. Charge confirmed that there is some unease as to how the government will handle the end game of the conflict as well as humanitarian components of the post-conflict situation.

[1](#)3. (C) Charge went on to highlight that until the humanitarian situation in the north is clarified, it will be difficult to assess the actual costs of meeting the immediate and longer terms needs of the people, reconstruction, and further security expenditures. He urged the GSL to improve its humanitarian practices with an eye towards gaining wide donor support for near-term reconstruction needs.

[1](#)4. (C) Bogollagama stated his appreciation for Charge's points, which he undertook to share with President Rajapaksa. He noted that that he understands U.S. concerns that political decisions taken as a result of the conflict could affect the government's ability to meet expenditure targets, thereby raising concern about the GSL's ability and commitment to meet IMF obligations. Unwilling to speak specifically about expenditure restraint, he encouraged the Charge to also raise U.S. points with Central Bank Governor Nivard Cabraal. (Note: Charge is scheduled to meet with Cabraal on May 11. End note.) He also suggested that the GSL would be happy to discuss these issues via a DVC with counterparts in Washington.

[1](#)5. (C) Bogollagama went on to note that he understands that negative judgments of GSL actions may affect the willingness of the international donor community to support GSL humanitarian and reconstruction efforts. He emphasized that it is the goal -- and responsibility -- of the government to return IDPs to their homes as quickly as possible. Charge encouraged the government to take concrete actions, such as

having a plan for the return of IDPs that includes benchmarks, to help the international community clearly understand government intentions.

¶6. (C) Bogollagama recommended that he and the Charge meet again next week after conveying points to the President and following post's meeting with Central Bank Governor Cabraal.

¶7. (C) COMMENT: Bogollagama did not appear to have detailed knowledge of the specifics of the government's request for an IMF SBA, the negotiated Letter-of-Intent conditions, or when/if the government plans to submit its LOI. However, the government could very well be concerned enough about the possibility of not receiving an IMF loan that it is stepping up its efforts to seek funds elsewhere. When asked if the government is pursuing a loan or currency-swap agreement from China, Bogollagama did deny (or confirm) it. However, times are getting tough. Cabraal returned to Colombo today without the \$500 million deal he was negotiating in Tripoli, stating simply that the deal that was expected yesterday could come "as early as next month."

MOORE